

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes  
Bill Leonard, Member  
State Board of Equalization*

May 7, 2007

## **QUOTE OF THE WEEK**

*“The moment the idea is admitted into society that property is not as sacred as the law of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence.”*

*-- John Adams*

*(1735-1826) Founding Father, 2nd US President*

## **UNDER THE DOME**

### **\*\*\*Still No Satisfactory End to Eastin Scandal\*\*\***

A small news item in the Sac Bee took me down memory lane.

“A Sacramento jury has awarded \$7.6 million to a California Department of Education whistleblower who was retaliated against after he reported the misappropriation of millions of dollars in government funds. The funds were handed out to community-based organizations between 1995 and 2000 to teach English as a second language to adults. Some of the schools turned out to be non-existent.”

<http://www.sacbee.com/111/story/160661.html> ---- more background:

[http://www.pacificresearch.org/pub/cap/2004/cap\\_04-06-17.html](http://www.pacificresearch.org/pub/cap/2004/cap_04-06-17.html)

According to Pacific Research Institute, during the period in question the Department of Education failed to conduct a single on-site audit of any school district in the state.

[http://www.pacificresearch.org/pub/sab/educat/grand\\_theft\\_education.pdf](http://www.pacificresearch.org/pub/sab/educat/grand_theft_education.pdf)

First of all, thank goodness that Jim Lindberg at the Department of Education did the right thing and blew the whistle on this massive fraud. It was found that both the Department, and former Superintendent of Public Instruction Delaine Eastin, retaliated against the whistleblower rather than stop the fraud. A jury had originally awarded the whistleblower \$4.5 million in 2002, but the state stupidly appealed. Now, this new jury has almost doubled the award. Clearly, it is time for California to cry uncle and pay this guy.

Since these were actually federal grant monies, the feds did their own investigation, and in 2001 indicted a couple of the groups' leaders who falsely took this money. No one from the

Department of Education was indicted. The Department gave the federal government back \$3.3 million for the fraudulent dispersal of the federal money. Millions in state funds are still not accounted for.

The state should hold hearings on this matter. State Superintendent Jack O'Connell should be asked whether the recommendations in the state auditor's report were ever instituted and whether additional efforts have been made to get the peoples' money back.

<http://www.bsa.ca.gov/pdfs/reports/99121.pdf>

## **AROUND THE STATE**

### **\*\*\*Moral Duty to Give Ex Cons a Second Chance\*\*\***

I join columnists Debra Saunders and Dan Walters in calling out those legislators and reporters for trying to blame the accident that took out a freeway ramp near the Bay Bridge on the fact that the driver had served time in prison more than 10 years ago.

Prison reform is one of the big issues of this legislative session. With the Legislature, Governor's office and court appointed watchers all focused on the system we have a unique opportunity to make things better. One thing that everybody agrees on is the need to lower the rate of recidivism. We are not going to make progress on this front by making it more difficult for ex cons to find productive work when they get out. It is in no way "tough on crime" to punish people after they have served their time. Plus, it runs counter to my foundational Christian belief that people can find forgiveness and redemption if they seek it.

If we really want ex-cons to be productive and neither a burden nor a threat to society, then we must expect to see them working at almost every possible job. Think about it; it might be a breath of fresh air to have a former felon working as a newspaper reporter or a legislator.

## **ISSUE FOCUS**

### **\*\*\*A Lithuanian Praises Flat Tax Fairness\*\*\***

A Leonard Letter reader from Lithuania responds excellently to my piece that praised the flat tax systems adopted by the young Baltic democracies. A flat tax is one approach among many, and I am not totally opposed to giving tax "progressivity" its due. A tax on food, for example, does have a bigger impact on people with low incomes and is therefore not a fair tax. But, I also think we have gone too far in pursuing what I call hyper-progressivity, where the state's reliance on high income earners yields super volatile revenue streams while suppressing investment. One way to get out of this mess is to challenge our thinking about the meaning of fairness. I say a flat income tax is fairer than our progressive income tax scheme because everybody pays the same rate, except the very poor who pay nothing. It is difficult to argue how this is not fair. My Lithuanian commenter reminds us of the importance of fair taxation for maintaining the social compact. Moreover, I find many of the unique components of the Lithuanian system, as described below, to be quite attractive. Legislators should take a look.

[Reader response] “I am all for the flat tax. For several reasons, which I believe can all be defended fairly simply but strongly. First, since it is extremely simple and the same for everybody, it is equitable. What I mean by that is that it is fundamentally fair: while charging the same income tax amount (in Lithuania, it is currently 27% and by law it will be reduced to 24% in January 2008) to everybody, it satisfies both those who say that the better off should pay more (because they do, since the absolute amount that I pay is more than the one paid by my neighbor in the same proportion as the difference in the absolute sizes of our incomes.) and those who say that we are all equal. And equality is, as we know from Tocqueville, one of the most fundamental strivings of a liberal democracy. In flat tax, the equality is at its most fundamental. When a liberal man finds himself equal to the rest of his fellow citizens, he deems that the law which has brought about such treatment is a good law. As soon as he says so, there is born in him an acceptance of the laws that the society imposes, and he realizes that by abiding at such just laws, he is also free.

This is something important to keep in mind. Because the Soviet man was in essence not social. For him, the state was essentially the police which also happened to be policing his thinking. As a result, acceptance of law, especially such law as tax law, has been one of the fundamental challenges of the new government. And what was well understood was the fact if the state is to achieve a universal acceptance of the government’s power of the purse, i.e. taxation, it has to keep it simple and also attractive. Therefore, we can get tax refunds on real estate interest, higher education spending, investments into pension and life insurance funds and the minimum income, which is not taxable at all. (Your non taxable income increases if you have more than two children). Even more importantly, you can directly determine an institution to which 2% of your total tax should be sent. (This money, however, cannot go to support political parties – which I personally disapprove of. I normally spend the money on schools or kindergartens to which my children happen to be going.) To sum up, its simplicity was designed deliberately to gain, on the one hand, its acceptance by the newly born tax payer and, on the other hand, to enable the state to effectively enforce its universal application.”

### **\*\*\*Action Against Poverty\*\*\***

I have often written about the need for evidence-based policy decisions rather than floating from fad to fad, as happens most often, but not exclusively, in public education. I recently found out about an effort at MIT to create evidence-based anti-poverty programs to help throughout the world. I am impressed by what I have read about the Poverty Action Lab. According to a Forbes magazine article, developed nations spend about \$100 billion each year to aid the world’s poorer countries and U.S. charities add another \$71 billion to that. Yet much of that money is simply thrown at the problem without tracking its effectiveness or seeking better options. The Poverty Action Lab is out to change that by studying what type of incentives actually work to change people’s behavior. For example, two lab economists studied immunization rates in Rajasthan (western India). The base immunization rate was a mere 2.6%. Establishing village-based immunization centers that are open regular hours increased that rate to 22%. Giving each family who brought in a child for vaccinations a kilo of lentils doubled that rate to 44%. Forbes quotes the Lab’s Abhijit Banerjee’s explanation: “Even for these people [the lentils] are not much. It’s just a token. But it often doesn’t take much to move people a lot.” Such studies hold

much promise for helping governments and charities determine the best way to spend valuable aid dollars, and that promises to change lives of people around the globe. To learn more about the Poverty Action Lab's work, go to:

<http://www.povertyactionlab.com/>

### **\*\*\*A Good Read\*\*\***

This week I am recommending "A War Like No Other: How the Athenians and Spartans Fought the Peloponnesian War" by Victor Davis Hanson. The book tells the story of the 27-year period (BC 431-404) during which almost all the Greek world was at war, lead principally by Athens and Sparta (separate Greek states).

This war could be a working definition of "asymmetrical warfare" as it is difficult to conceive of two states, both Greek, being more dissimilar. Athens was worldly, democratic, wealthy almost beyond imagining, had a mercurial assembly that seemed simultaneously capable of deep insight and amazing obtuseness, and had developed a long-term strategy to use naval force and fortifications to outlast any opponent. Sparta was nearly dearth of capital, insular, despotic, its vaunted army was primarily focused on suppressing internal slave rebellions, and its leadership seemed occasionally isolated from prosecution of the war for better or worse.

Ponder the idea of a 27-year-long war. Our country's longest war thus far was the eight years of the Revolutionary War. People are already tiring of our War of Terror. I suspect that it will last much more than 27 years, which is one reason to study the Peloponnesian war, and this book is a way to start.

## **DATES LAST WEEK**

**April 30, 2007** – Baby Ethan Rutherford Lim was born.

## **BOE AND LEGISLATIVE DATES**

**May 28, 2007** --- Memorial Day observed.

**May 31, 2007** --- Board of Equalization meets in Sacramento.

**June 1, 2007** --- Board of Equalization meets in Sacramento.

**June 8, 2007** --- Last day to pass bills out of house of origin (J.R. 61(a)(8)).

**June 15, 2007** --- Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).

**June 19-21, 2007** --- Board of Equalization meets in Culver City.

**July 4, 2007** --- Independence Day.

**July 13, 2007** --- Last day for policy committees to hear and report bills (J.R. 61(a)(10)).

**July 17-18, 2007** --- Board of Equalization meets in Sacramento.

**July 20, 2007** --- Summer Recess begins on adjournment, provided Budget Bill has been passed (J.R. 51(a)(3)).

**August 14-15, 2007** --- Board of Equalization meets in Sacramento.

**August 20, 2007** --- Legislature reconvenes from Summer Recess (J.R. 51 (a)(3)).

## **NOTABLE DATES/ HISTORY**

**May 7, 1789** --- The first Presidential Inaugural ball was held for George Washington in New York.

**May 7, 1915** --- The British ship Lusitania was torpedoed by a German submarine off the Irish coast. Nearly 1,200 people were killed, and the event was key in the U.S. decision to enter World War I.

**May 8, 1945** --- Declared V-E Day (Victory in Europe Day) after Germany unconditionally surrendered to Allied forces.

**May 9, 1914** --- President Woodrow Wilson proclaimed the first national Mother's Day.

**May 9, 1974** --- The U.S. House Judiciary Committee began hearings on whether to recommend the impeachment of President Richard Nixon for Watergate scandal and coverup.

**May 10, 1869** --- A golden spike was driven into the ground at Promontory, Utah, to mark the meeting of the Union Pacific and Central Pacific railroads and completion of the country's first transcontinental railroad.

**May 11, 1927** --- Louis B Mayer formed the Academy of Motion Picture Arts & Sciences.

**May 12, 1865** --- The final land action of Civil War occurred at Palmito Ranch, Texas.

**May 13, 1846** --- The U.S. formally declared war on Mexico although fighting had been under way for two months.

## **GENERAL TAX INFORMATION**

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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